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National trade and FDI policies in the era of global value chains – the example of the Visegrad countries

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„European Security and Stability in a Complex Global Order – The Case of Neighbourhood Policy” International Congress 9 May 2017, SGH, Warsaw

Foreign Trade and FDI Policy

- Visegrad countries as EU members implement EU trade policy and FTAs.
- However, what is significantly influences V4 trade: global production chains, multinational firms.
- Trade and FDI promotion are strongly interconnected.

Measures and aims of trade and FDI policies

	Narrow		Wide	
FDI	Financial incentives (grants) Tax allowances Other benefits (special zones)	Large firms	Business environment Fiscal and monetary policy, Infrastructure Education, etc.	All firms
Trade	Soft interventions (fairs, delegations) Direct financing	SMEs	Business environment Fiscal and monetary policy, Infrastructure Education, etc.	All firms

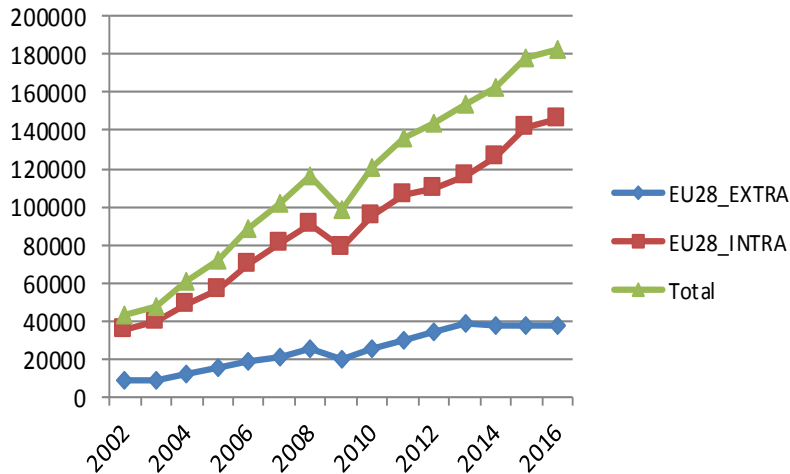
State export strategies and institutions in the Visegrád countries

	Government strategy concerning export or internationalisation	“Soft” tools, agencies	“Direct” financing tools	Need for diversification	Importance of innovation, higher VA
PL	New Development Strategy 2016	PAHI	KUKE	Geographical	Yes
CZ	Export Strategy 2012-20	CzechTrade	CEB, EGAP	Geographical and product	Yes
SK	The Strategy for External Economic Relations of the Slovak Republic for 2014 – 2020	SARIO	Eximbanka	Geographical	Yes
HU	„Eastern Opening”, 2011, Irinyi Dev. Plan, 2016	HIPA, trade house	Exim	Geographical	Weak

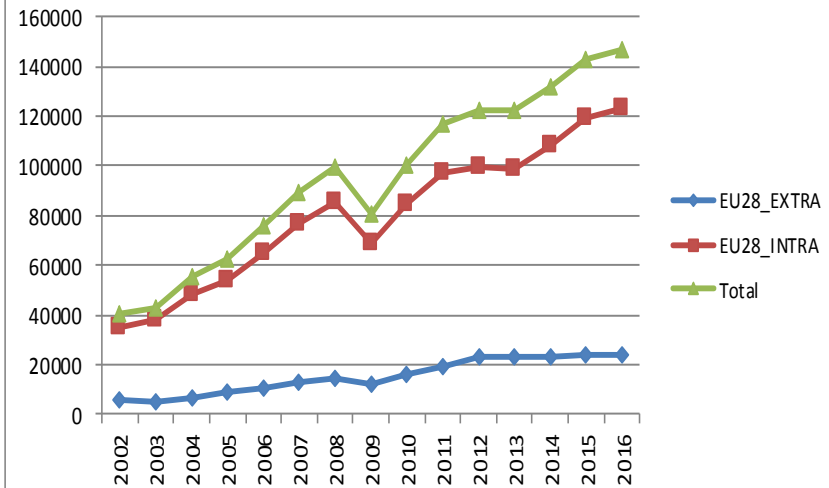
Export to the EU and to extra-EU areas

Visegrád Export, m euro, total, EU, extra-EU

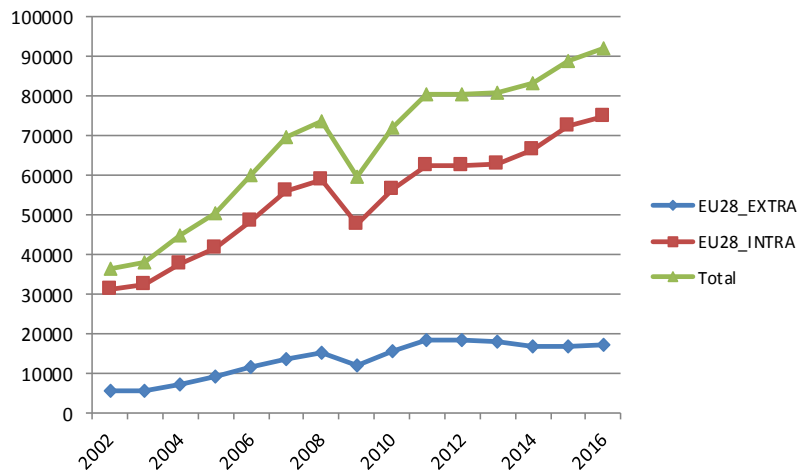
Poland



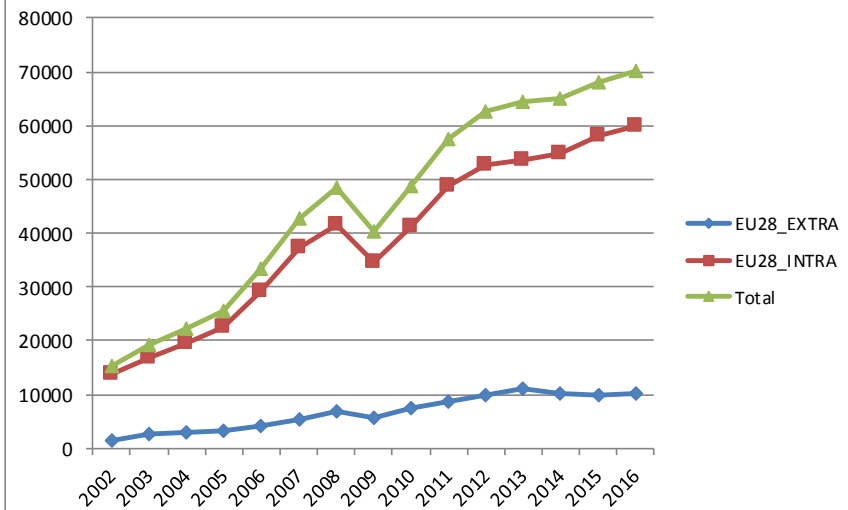
Czech Republic



Hungary



Slovakia

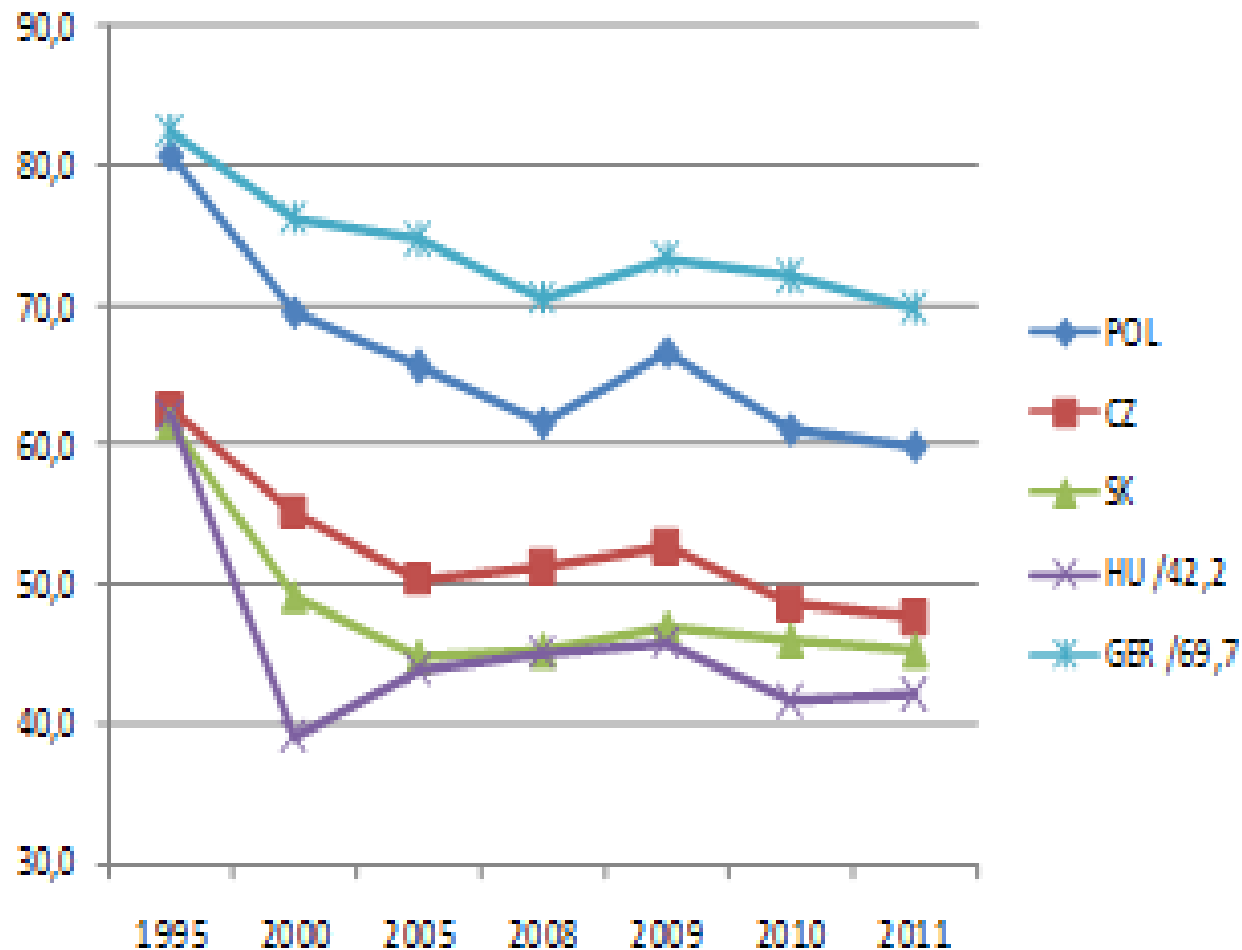


Share of EU in export, %

	2004	2010	2013	2015	2016
PL	80.6	79.3	74.9	79.2	79.5
CZ	87.7	84.3	81.1	83.4	83.7
SK	87.2	84.7	82.9	85.5	85.4
HU	84.3	78.4	77.8	81.4	81.3

Source: Eurostat Comext

Domestic value added in manufacturing export, %



Source: calculations from OECD-WTO TiVA database

FDI promotion

- EU Law : Article 107 of TFEU prohibits any state aid that may distort competition
- But: state aid promoting the development of an economically backward area is compatible

	EU	CZ	HU	PL	SK
SA/GDP 2000- 2015	0.52	1.18	1.21	0.83	0.44
RA/SA 2000- 2003	16.6	3.3	22.2	16.3	51.7
RA/SA 2004- 2015	18.7	51.2	27.4	25.3	51.9

Source:
calculations from
European
Commission State
Aid Scoreboard
(percentage)

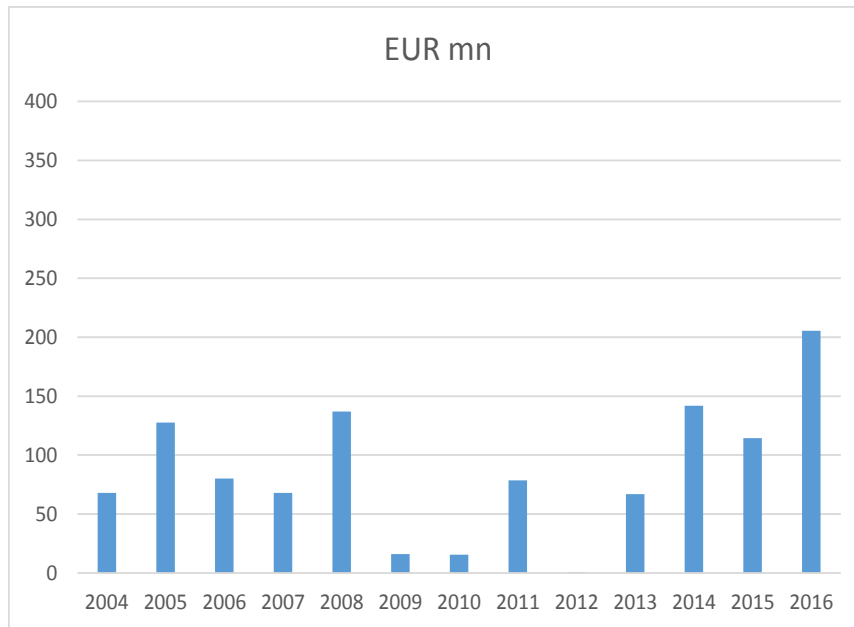
SA: State Aid
RA: Regional Aid

Investment incentive types, narrow sense

- Cash grant
 - Tax allowances
 - R&D support
 - Employment, training grants
 - Special zones, industrial parks
 - Grants of municipalities, cities
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- Strong competition in V4 for investments

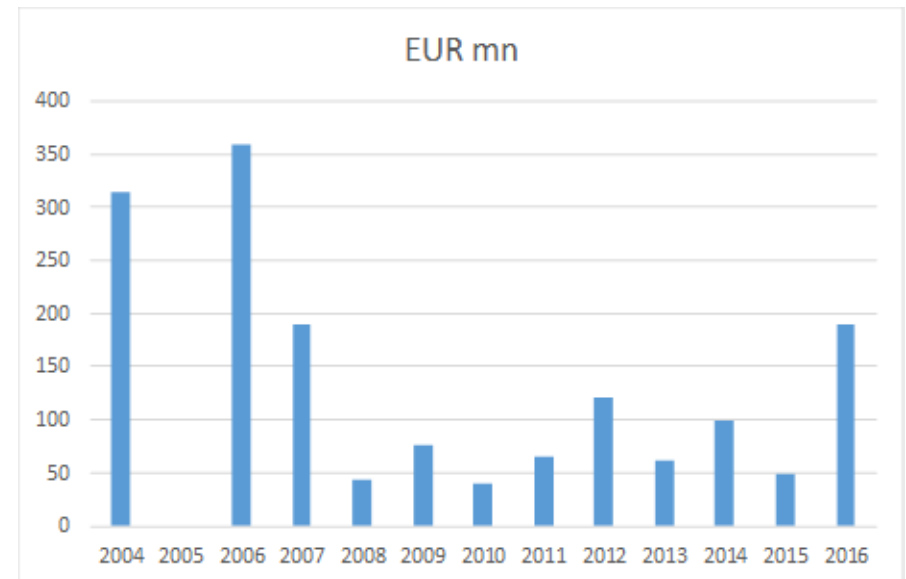
Government grants and investment incentives

HU



Source: calculations based on data of www.kormany.hu

SK



Source: www.economy.gov.sk

Largest grants

HU	Aid EUR mn	EUR th per job
Mercedes-Benz, 2008	88.1	35.2
Apollo Tyres, 2014	51.9	53.6
Hankook Tire, 2005	63.5	42.1
AUDI Hungaria, 2011	46.5	25.8
Mercedes-Benz, 2016	41.4	41.4
ThyssenKrupp, 2016	34.1	75.8

SK	Aid EURmn	EUR th per job
Kia Motors Slovakia, 2004	179.7	75.7
PCA Slovakia 2003	166.0	47.4
Jaguar Land Rover 2016	130.0	46.4
Samsung Display 2007	74.9	62.4
Duslo, a.s. 2014	58.5	45.0
Mobis Slovakia 2004	47.3	50.8

CZ	Aid Eur mn	EUR th per job
Hyundai Motor , 2008	177.8	50.6
Nexen Tire Corp , 2016	129.0	93.2
Daikin Device , 2006	55.4	68.7
IPS Alpha Techn. 2006	49.9	23.7
Bosch Dliesel, 2005	47.8	130.1

Source: calculations from data of
www.czechinvest.org
www.kormany.hu,
www.economy.gov.sk

Trade and FDI promotion, wide sense

- Fiscal policy, tax system
- Monetary policy, banking
- Infrastructure
- Education, training,
- R&D, innovation
- Administration, regulation
- Legal stability, institutions
- *International scoreboards, indices, surveys, country reports*

Factors of business environment in the V4

	PL	CZ	SK	HU
Transport infrastructure	improving but key bottlenecks, large fatality rate	high rail density, inadequate road network	fragmented road transport network	improved air transport, but rail system underdeveloped
TEN-T road	34%	55%	39%	81%
TEN-T rail core network 2014	23%	63%	20%	9%
Legal, regulatory environment	The current systemic threat to the rule of law creates legal uncertainty.	Heavy regulatory burden and administrative barriers, but improving	Harmful administrative and regulatory barriers, corruption	Legal uncertainty, changing taxes, deteriorating institutions, corruption
Corruption perception, 2016	improving CPI=62	stagnating recently CPI=55	stagnating recently CPI=51	worsening CPI=48
Education	Improving, good	Relatively good	Deteriorating	Significantly worsening
Vocational educational training (VET)	Relatively good results	Relatively good outcomes, positive perception	In 2015: dual VET system, but limited interest among potential participants	Secondary school types renamed in 2016, unlikely improvement
Skilled labour force	relatively good	yet available, good	shortage	shortage
GERD/GDP 2015*	1.0%	1.95%	1.18%	1.38%

Conclusion

- FDI and trade promotion are linked
- FDI and trade promotion in wide sense: recently several factors deteriorated in business environment
- Qualified labour shortage is large and growing problem in V4
- Visegrád countries continue competing for FDI, therefore costly, tailored narrow tools will be more and more important
- However, this cannot endlessly compensate for worsening business climate (wide tools).